

**Letter of Findings: 02-20150522  
Corporate Income Tax  
For the Year 2013**

**NOTICE:** IC § 6-8.1-3-3.5 and IC § 4-22-7-7 require the publication of this document in the Indiana Register. This document provides the general public with information about the Department's official position concerning a specific set of facts and issues. This document is effective on its date of publication and remains in effect until the date it is superseded or deleted by the publication of another document in the Indiana Register. The "Holding" section of this document is provided for the convenience of the reader and is not part of the analysis contained in this Letter of Findings.

### HOLDING

Out-of-State Service provider, having taken advantage of the "Work Opportunity Tax Credit" on its federal tax return, was unable to deduct employee wage expenses on its Indiana corporate income tax return.

### ISSUE

#### **I. Corporate Income Tax - Wage Expenses.**

**Authority:** IC § 6-3-1-3.5(b).

Taxpayer argues it is entitled to claim a deduction for wage expenses not claimed on its corresponding federal return.

### STATEMENT OF FACTS

Taxpayer is an out-of-state service provider which files Indiana corporate income tax returns. Taxpayer filed its 2013 income tax return. In a letter dated August 2015, the Indiana Department of Revenue ("Department") notified Taxpayer of an adjustment to that return. The Department informed Taxpayer it was denying Taxpayer a deduction taken for wages claimed by Taxpayer.

Taxpayer disagreed with the adjustment and submitted a protest to that effect. An administrative hearing was conducted by telephone during which Taxpayer's representative explained the basis for the protest. This Letter of Findings results.

#### **I. Corporate Income Tax - Wage Expenses.**

### DISCUSSION

The issue is whether taxpayer is entitled to claim an Indiana deduction for wages paid to its employees.

On its 2013 federal income tax return, Taxpayer claimed an approximately \$26,000 "Work Opportunity Tax Credit" (WOTC). The credit is defined as a "Federal tax credit available to employers for hiring individuals from certain target groups who have consistently faced significant barriers to employment." United States Department of Labor, <https://www.doleta.gov/business/incentives/opptax/> (last visited January 16, 2016). Taking the credit comes at a price; as explained by Taxpayer:

In compliance with federal tax regulations, because the [T]axpayer received a tax credit for those wages paid to employees, they were not allowed to also claim a deduction for those wages, and that wage expense was added back to the [T]axpayer's federal taxable income.

On its Indiana return, Taxpayer claimed a deduction on line 5 explaining the adjustment as an "adjustment to reverse Federal WOTC addback." The Department reversed the addback stating in the August 2015 letter, "Indiana has not adopted the Federal Work Opportunity Credit and has no avenue to claim a deduction for the Federal addback."

In the case of corporations, Indiana adjusted gross income is based on the taxpayer's federal adjusted gross income as defined in I.R.C. § 63 with "modifications." IC § 6-3-1-3.5(b). What follows IC § 6-3-1-3.5(b) is a lengthy

list of various addbacks and adjustments specific to Indiana.

Taxpayer claims that because it was required to addback the wage expenses on its federal return, it is entitled to deduct those expenses on the Indiana return. However, Taxpayer has pointed to no such adjustment permissible under Indiana law. However generally equitable its argument might be, there is no provision in Indiana law which allows the adjustment Taxpayer claimed.

### **FINDING**

Taxpayer's protest is respectfully denied.

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